

**REPORT OF THE AUDIT OF THE
SCOTT COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SCOTT COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Scott County Fiscal Court for fiscal year ended June 30, 2004.

We have issued an unqualified opinion on the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Scott County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$52,735,505 as of June 30, 2004. The fiscal court had unrestricted net assets of \$21,078,104 in its governmental activities as of June 30, 2004, with total net assets of \$52,728,637. In its enterprise fund, total net cash and cash equivalents were \$6,868 with total net assets of \$6,868. The fiscal court had total debt principal as of June 30, 2004 of \$2,330,000 with \$345,000 due within the next year.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT	1
SCOTT COUNTY OFFICIALS	3
MANAGEMENT’S DISCUSSION AND ANALYSIS	5
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	17
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	20
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	25
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	28
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	33
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	37
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	41
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	45
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS	49
NOTES TO FINANCIAL STATEMENTS.....	51
BUDGETARY COMPARISON SCHEDULES	63
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	67
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	71
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	75
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	79
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable George Lusby, Scott County Judge/Executive
Members of the Scott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scott County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Scott County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Scott County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scott County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The required supplementary information, management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable George Lusby, Scott County Judge/Executive
Members of the Scott County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Scott County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 14, 2005 on our consideration of Scott County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 14, 2005

SCOTT COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

George Lusby	County Judge/Executive
Anna Isaacs	Magistrate
Gary Allen Perry	Magistrate
Jim McClanahan	Magistrate
Bobby Rankin	Magistrate
John T. Hoffman	Magistrate
Tom Prather	Magistrate
Jerry Bruin	Magistrate

Other Elected Officials:

Clay McKnight	County Attorney
Larry Covington	Jailer
Donna Perry	County Clerk
Martha Mitchell	Circuit Court Clerk
Bobby Hammons	Sheriff
Jane Rankin	Property Valuation Administrator
John Goble	Coroner

Appointed Personnel:

Peggy Atkins	County Treasurer
Jane Lucas	Payroll Officer

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George Lusby
Scott County Judge/Executive
P.O. Box 973
Court House, Main Street
Georgetown, Kentucky 40324

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(502) 863-7850
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(502) 863-7852

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

Management's discussion and analysis of Scott County's financial performance provides an overview of the County's financial activities for the fiscal year ending June 30, 2004.

Financial Highlights:

The County collected \$22,229,115 in revenue and carried forward a balance of \$16,700,842 for a total of \$38,929,957 revenue in the General Fund. Expenses in the General Fund totaled \$15,770,263 plus transfers into the Jail Fund of \$1,370,000 and into the Road Fund a total of \$1,100,000, plus \$392,368 into the Public Properties Corporation Fund for a total of \$18,632,631 in General Fund disbursements. The County showed a net gain of \$3,596,484 for the fiscal year.

Key points in the General Fund: A Federal Grant was received in the amount of \$822,959 with only \$134,730 of the amount spent in this fiscal year with a balance to be spent in the 2005 budget year.

After lagging behind the previous year for nearly three quarters, the payroll tax receipts finally surpassed the previous year by \$120,860. This, however, was still \$190,618 less than the year ending June 30, 2002. Since the payroll receipts are the major part of the county budget, it is an area that needs to be carefully monitored.

The net profit receipts totaled \$4,041,154. This amount was well above our budget and was the largest amount since the year ending June 30, 2001. This increase accounted for a large portion of our net gain for the year.

The largest budgeted amount for the current year was for the reservoir project in the amount of \$8,500,000. It was anticipated to be completed during 2004 but due to permitting delays, only engineering and environmental work was completed along with the purchase of flood easements. The total amount spent for this was \$265,128. If permits are completed in the upcoming year the reservoir will be built with adequate reserves to pay for the construction. However, final cost will determine if some bonding will be needed.

The county government has carried forward its largest General Fund balance in known history in the amount of \$20,297,326. This large amount, however, is the result of the reservoir not being completed and the anticipation of several major projects that are to be funded in the upcoming year. Among the projects for the 2005 budget at estimated cost are: reservoir - \$2,000,000; Etter Lane sewer project - \$800,000; Lisle Road park purchase - \$500,000; Ambulance building # 1 completion - \$400,000; Ambulance building at Stamping Ground - \$400,000; Fire Station on US 460 - \$300,000; Fire Station on US 922 - \$300,000; County Attorney's building completion - \$300,000; additional capital outlay - \$1,000,000. In addition, the County will be purchasing 2 fire trucks for \$600,000 and an ambulance for \$125,000.

In addition to the capital outlay, the 2005 budget will include 3% raises for employees plus the addition of more than 20 employees and major cost increases in health and other insurance cost.

The large carryover from the current year will allow the county to complete all of these projects and still maintain a balance necessary to meet future needs as the county deals with its record growth.

**Scott County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Financial Highlights (Continued)

The Road Fund collected \$1,017,888 and had a carryover of \$224,134 from the previous year. The General Fund transferred \$1,100,000 into the fund for the 2004 budget year. The total expenses for the year were \$2,236,536. The Road Fund's major expenses are in labor and benefits totaling over \$1,200,000. Labor costs are primarily for maintaining over 200 miles of roads plus maintenance of the County's park system. Other expenses include equipment, fuel, and materials necessary to maintain a safe road system throughout Scott County.

The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a fund balance at June 30, 2004 of \$42,234. The beginning balance was \$115,751. The Jail received \$422,570 from its operation and the County transferred in \$1,370,000. Total expenses for the year were \$1,803,925 plus transfers out to the Public Properties Corporation Fund in the amount of \$62,162.

Among the largest expenditures of the jail besides salaries and benefits are medical expenses that totaled \$105,157 and food totaling \$154,891. Health insurance continues to rise and the total expense for the year was \$177,634 with a better than 30% increase for the up coming year.

The Public Properties Corporation Fund is used for the accumulation of resources for, and payment of, long-term debt principal and interest. The county made debt service payments of \$454,735 during the year.

The LGEA Fund is money earmarked for additional roadwork. During the fiscal year there was a carryover of \$107,925 and receipts of \$104,571. No money was spent during the year leaving a carryover of \$212,496. This money will be used for special future projects.

The McCracken Trust Fund is a fund designated for indigent care. Revenue is derived from interest invested in a Trust Fund with 2/3 being used for indigent needs and 1/3 adding to the Trust. During the year, the County expended \$2,188 from this fund.

The John Graves Ford Memorial Hospital Fund is a separate fund that is a result of the selling of the old John Graves Hospital. The revenue from the sale of the hospital is invested in CD's in the amount of \$378,000 and the interest is spent for indigent care with the largest part going for pauper burials. This fiscal year the County spent \$13,409 from this fund.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Scott County's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of Scott County's finances in a manner similar to a private-sector business.

**Scott County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Government-wide Financial Statements (Continued)

The *Statement of Net Assets* presents information on Scott County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Scott County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Scott County's governmental activities include general government, protection to persons and property, roads, recreation and culture, general health and sanitation, and social services. The County has one business-type activity – the operation of a jail canteen.

The government-wide financial statements include not only Scott County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Scott County has one such entity, the Scott County Public Properties Corporation. It is known as a blended component unit.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Scott County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with legal and statutory requirements. All of the funds of Scott County can be divided into three broad categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

**Scott County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Scott County has seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, Jail Fund, and the Public Properties Corporation Fund, which are the major funds of the County. The Local Government Economic Assistance Fund, McCracken Trust Fund and the John Graves Ford Memorial Hospital Fund are considered non-major funds.

Scott County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for the general fund, road fund, and jail fund to demonstrate compliance with their budgets.

Proprietary Funds

Proprietary Funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Fiduciary Fund

Scott County has one fiduciary fund. The Jail Canteen Inmate Fund is used to account for monies held by the county for a custodial purpose only.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Scott County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position.

**Table 1
Scott County's Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2003	2004	2003	2004	2003	2004
Assets						
Current and other assets	\$17,654,608	\$21,162,691	\$4,860	\$6,868	\$17,659,468	\$21,169,559
Capital assets	35,316,630	33,895,946			35,316,630	33,895,946
Total Assets	52,971,238	55,058,637	4,860	6,868	52,976,098	55,065,505
Liabilities						
Current and other liabilities	330,000	345,000			330,000	345,000
Long-term liabilities	2,330,000	1,985,000			2,330,000	1,985,000
Total Liabilities	2,660,000	2,330,000			2,660,000	2,330,000
Net Assets						
Invested in capital assets, net						
of related debt	32,656,630	31,565,946			32,656,630	31,565,946
Restricted For:						
Nonexpendable	81,510	82,875			81,510	82,875
Expendable	2,697	1,712			2,697	1,712
Unrestricted	17,570,401	21,078,104	4,860	6,868	17,575,261	21,084,972
Total Net Assets	\$50,311,238	\$52,728,637	\$4,860	\$6,868	\$50,316,098	\$52,735,505

**Scott County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Table 2

	Governmental Activities		% Change
	2003	2004	
Revenues:			
General Revenues	\$ 17,658,173	\$ 18,860,680	0.068
Charges For Services	1,061,115	1,032,194	(0.027)
Operating Grants and Contributions	1,680,262	3,896,265	1.319
Total Revenues	<u>\$ 20,399,550</u>	<u>\$ 23,789,139</u>	0.166
Expenses:			
General Government	\$ 7,685,373	\$ 8,106,176	0.055
Protection to Persons and Property	5,464,265	5,671,666	0.038
General Health and Sanitation	99,414	539,939	4.431
Social Services	936,607	397,572	(0.576)
Recreation and Culture	1,679,158	1,370,154	(0.184)
Roads	3,161,881	2,949,761	(0.067)
Interest on Long-Term Debt	140,553	125,490	(0.107)
Capital Projects	1,499,782	2,210,982	0.474
Total Expenses	<u>\$ 20,667,033</u>	<u>\$ 21,371,740</u>	0.034

Change in Net Assets

Governmental Activities: Scott County's net assets increase by \$2,417,399 in fiscal year 2004. Key elements of this are as follows:

- Current assets including cash increased by \$3,508,083.
- Investment in capital assets, net of related debt decreased by \$1,090,684.
- Current and long-term liabilities decreased by \$330,000.
- Revenues were \$23,789,139 as reflected in the Statement of Activities.
- Expenditures totaled \$21,371,740 as reflected in the Statement of Activities.

Business-type Activities: Scott County's net assets increased by \$2,008 in fiscal year 2004. Key elements of this are as follows:

- Current assets including cash increased by \$2,008

**Scott County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Financial Analysis of Scott County's Funds

As noted earlier, Scott County has seven governmental funds, four of which are major. Those include the General Fund, the Road Fund, the Jail Fund and the Public Properties Corporation Fund. The other governmental funds, considered non-major funds are the Local Government Economic Assistance Fund, the McCracken Trust Fund and the John Graves Ford Memorial Hospital Fund. This discussion will focus on the four major funds. Additional information on the major and non-major funds can be found in the financial statements that follow.

The General Fund is the chief operating fund of Scott County. At the end of June 30, 2004, the unreserved fund balance was \$20,257,043 and the reserved fund balance was \$40,283. Unreserved fund balance represents the amount of fund balance that is unrestricted and is available for appropriation. The reserved fund balance represents the amount not available for appropriation because it will be used to pay encumbrances already incurred by the fiscal court. The General Fund had \$22,229,115 in revenues, with approximately 71% of the revenue coming from tax collections. The remaining 29% came from various other sources. The General Fund also had \$15,770,263 in expenditures, with approximately 46% spent on general government and administration and 25% spent on protection to persons and property. The remaining 29% was spent on various functions, including recreation and culture and capital projects.

The Road Fund is dedicated to county road and bridge construction as well as maintenance of those assets. At the end of June 30, 2004, the unreserved fund balance was \$102,782 and the reserved fund balance was \$2,704. Unreserved fund balance represents the amount of fund balance that is unrestricted and is available for appropriation. The reserved fund balance represents the amount not available for appropriations because it will be used to pay encumbrances already incurred by the fiscal court. The Road Fund had \$1,017,888 in revenues, with approximately 91% of the revenue coming from intergovernmental revenues. The remaining 9% came from various other sources. The Road Fund also had \$2,236,536 in expenditures, with approximately 100% (including salaries of the road department) spent on the road function and administration.

The Jail Fund is used to account for the operation of the County's detention program. At the end of June 30, 2004, the unreserved fund balance was \$34,684 and the reserved fund balance was \$7,550. Unreserved fund balance represents the amount of fund balance that is unrestricted and is available for appropriation. The reserved fund balance represents the amount not available for appropriation because it will be used to pay encumbrances already incurred by the fiscal court. The Jail Fund had \$422,570 in revenues, with approximately 80% of the revenue coming from intergovernmental revenues. The remaining 20% came from various other sources. The Jail Fund also had \$1,803,925 in expenditures, with approximately 99% spent on persons and property and administration and the remaining 1% spent on debt service.

The Public Properties Corporation Fund is used to accumulate resources for and payment of general long-term debt principal and interest payments. The unreserved fund balance was \$145 and represents the amount that is available for appropriation. The only revenue recognized in the fund for the year was \$145 in interest and \$454,735 was paid in long-term debt principal and interest payments for the year. The funding to pay these long-term debt principal and interest payments comes from transfers made from other governmental funds.

**Scott County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

General Fund Budgetary Highlight

Actual operating revenues were \$7,043,063 more than originally budgeted by the Fiscal Court. This increase was primarily due to tax revenues and intergovernmental revenues being more than anticipated.

Actual operating expenditures were \$10,189,877 less than the amount originally budgeted by Fiscal Court primarily due to money being budgeted for capital projects but not being spent in fiscal year 2004.

Capital Assets and Debt Administration

Capital Assets.

Scott County's investment in capital assets for its government and business activities as of June 30, 2004, amounts to \$33,895,946 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and infrastructure.

Major capital asset events during the 2004 fiscal year included the purchase of computer equipment for the County Clerk in the amount of \$79,811 and lighting at Senior and Sutton's Fields in the amount of \$122,140.

Additional information on the county's capital assets can be found in Note 3 of this report.

**Table 3
Scott County's Capital Assets, Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Infrastructure Assets	\$ 13,973,577	\$ 12,875,189	\$	\$	\$ 13,973,577	\$ 12,875,189
Land	4,319,833	4,319,833			4,319,833	4,319,833
Buildings and Improvements	14,085,995	13,658,687			14,085,995	13,658,687
Other Equipment	1,192,403	1,449,794			1,192,403	1,449,794
Vehicles and Equipment	1,744,822	1,592,443			1,744,822	1,592,443
Total Net Capital Assets	\$ 35,316,630	\$ 33,895,946	\$	\$	\$ 35,316,630	\$ 33,895,946

Long-term Debt.

At the end of the 2004 fiscal year, Scott County had total long-term debt outstanding of \$2,330,000. This amount of this debt due within one year is \$345,000 and \$1,985,000 is due in subsequent years. This debt was issued for the advanced refunding of outstanding bonds issued in 1990. This debt is described in Note 4 of the notes to the financial statements.

**Scott County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Other Matters

The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2005 fiscal year budget.

- The 2005 fiscal year adopted budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects that have been completed or are nearing completion.
- Program cuts at the state level and loss of interest may have a negative impact on funding for county programs. The fiscal court may decide to alter the operations or funding of county operations impacted by these revenue shortfalls.

Request for Information

This financial report is designed to provide a general overview of Scott County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Scott County Treasurer, P. O. Box 973, Georgetown, KY 40324.

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SCOTT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

SCOTT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 21,162,691	\$ 6,868	\$ 21,169,559
Total Current Assets	<u>21,162,691</u>	<u>6,868</u>	<u>21,169,559</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	4,319,833		4,319,833
Buildings	13,658,687		13,658,687
Other Equipment	1,449,794		1,449,794
Vehicles and Equipment	1,592,443		1,592,443
Infrastructure Assets - Net of Depreciation	<u>12,875,189</u>		<u>12,875,189</u>
Total Noncurrent Assets	<u>33,895,946</u>		<u>33,895,946</u>
Total Assets	<u>55,058,637</u>	<u>6,868</u>	<u>55,065,505</u>
LIABILITIES			
Current Liabilities:			
Revenue Bonds Payable	345,000		345,000
Noncurrent Liabilities:			
Revenue Bonds Payable	<u>1,985,000</u>		<u>1,985,000</u>
Total Liabilities	<u>2,330,000</u>		<u>2,330,000</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	31,565,946		31,565,946
Restricted For:			
Indigent Care:			
Nonexpendable	82,875		82,875
Expendable	1,712		1,712
Unrestricted	<u>21,078,104</u>	<u>6,868</u>	<u>21,084,972</u>
Total Net Assets	<u>\$ 52,728,637</u>	<u>\$ 6,868</u>	<u>\$ 52,735,505</u>

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

SCOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Functions/Programs Reporting Entity	Expenses	Program Revenues Received	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General Government	\$ 8,106,176	\$ 246,947	\$ 240,954
Protection to Persons and Property	5,671,666	593,203	2,629,297
General Health and Sanitation	539,939	192,044	
Social Services	397,572		
Recreation and Culture	1,370,154		
Roads	2,949,761		1,026,014
Interest on Long-Term Debt	125,490		
Capital Projects	2,210,982		
Total Governmental Activities	<u>21,371,740</u>	<u>1,032,194</u>	<u>3,896,265</u>
Business-Type Activities:			
Jail Canteen	22,434	24,442	
Total Business-Type Activities	<u>22,434</u>	<u>24,442</u>	
Total Primary Government	<u>\$ 21,394,174</u>	<u>\$ 1,056,636</u>	<u>\$ 3,896,265</u>

General Revenues:

Taxes:
 Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Taxes
 Other Taxes
 Excess Fees
 Miscellaneous Revenues
 Accrued Interest Received

 Total General Revenues
 Change in Net Assets
 Net Assets - Beginning

 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

SCOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (7,618,275)	\$	\$ (7,618,275)
(2,449,166)		(2,449,166)
(347,895)		(347,895)
(397,572)		(397,572)
(1,370,154)		(1,370,154)
(1,923,747)		(1,923,747)
(125,490)		(125,490)
(2,210,982)		(2,210,982)
(16,443,281)		(16,443,281)
	2,008	2,008
	2,008	2,008
(16,443,281)	2,008	(16,441,273)
1,374,066		1,374,066
16,622		16,622
350,277		350,277
13,985,448		13,985,448
884,741		884,741
1,772,590		1,772,590
476,936		476,936
18,860,680		18,860,680
2,417,399	2,008	2,419,407
50,311,238	4,860	50,316,098
\$ 52,728,637	\$ 6,868	\$ 52,735,505

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

SCOTT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Jail Fund	Public Properties Corporation Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 20,297,326	\$ 105,486	\$ 42,234	\$ 145	\$ 717,500	\$ 21,162,691
Total Assets	<u>\$ 20,297,326</u>	<u>\$ 105,486</u>	<u>\$ 42,234</u>	<u>\$ 145</u>	<u>\$ 717,500</u>	<u>\$ 21,162,691</u>
FUND BALANCES						
Reserved for:						
Encumbrances	\$ 40,283	\$ 2,704	\$ 7,550	\$	\$	\$ 50,537
Permanent Fund - Indigent Care					82,875	82,875
Unreserved:						
General Fund	20,257,043					20,257,043
Special Revenue Fund		102,782	34,684		632,913	770,379
Debt Service Fund				145		145
Permanent Fund					1,712	1,712
Total Fund Balances	<u>\$ 20,297,326</u>	<u>\$ 105,486</u>	<u>\$ 42,234</u>	<u>\$ 145</u>	<u>\$ 717,500</u>	<u>\$ 21,162,691</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets

Total Fund Balances	\$ 21,162,691
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	49,377,034
Accumulated Depreciation	(15,481,088)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Revenue Bonds	(2,330,000)
Net Assets Of Governmental Activities	<u>\$ 52,728,637</u>

The accompanying notes are an integral part of the financial statements.

SCOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

SCOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road Fund	Jail Fund	Public Properties Corporation Fund
REVENUES				
Taxes	\$ 15,774,826	\$	\$	\$
Excess Fees	884,741			
Licenses and Permits	233,919			
Intergovernmental	2,823,345	923,771	336,149	
Charges for Services	405,050		44,079	
Miscellaneous	1,649,288	92,450	42,342	
Interest	457,946	1,667		145
Total Revenues	<u>22,229,115</u>	<u>1,017,888</u>	<u>422,570</u>	<u>145</u>
EXPENDITURES				
General Government	4,538,616			
Protection to Persons and Property	3,989,710		1,378,940	
General Health and Sanitation	525,399			
Social Services	381,975			
Recreation and Culture	1,405,266			
Roads		1,836,862		
Debt Service	719		36	454,735
Capital Projects	2,210,982			
Administration	2,717,596	399,674	424,949	
Total Expenditures	<u>15,770,263</u>	<u>2,236,536</u>	<u>1,803,925</u>	<u>454,735</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>6,458,852</u>	<u>(1,218,648)</u>	<u>(1,381,355)</u>	<u>(454,590)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		1,100,000	1,370,000	454,530
Transfers To Other Funds	(2,862,368)		(62,162)	
Total Other Financing Sources (Uses)	<u>(2,862,368)</u>	<u>1,100,000</u>	<u>1,307,838</u>	<u>454,530</u>
Net Change in Fund Balances	3,596,484	(118,648)	(73,517)	(60)
Fund Balances - Beginning	16,700,842	224,134	115,751	205
Fund Balances - Ending	<u>\$ 20,297,326</u>	<u>\$ 105,486</u>	<u>\$ 42,234</u>	<u>\$ 145</u>

The accompanying notes are an integral part of the financial statements.

SCOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Non-Major Governmental Funds	Total Governmental Funds
\$	\$ 15,774,826
	884,741
	233,919
102,243	4,185,508
	449,129
	1,784,080
17,178	476,936
119,421	23,789,139
	4,538,616
	5,368,650
	525,399
15,597	397,572
	1,405,266
	1,836,862
	455,490
	2,210,982
	3,542,219
15,597	20,281,056
103,824	3,508,083
	2,924,530
	(2,924,530)
0	0
103,824	3,508,083
613,676	17,654,608
\$ 717,500	\$ 21,162,691

The accompanying notes are an integral part of the financial statements.

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**SCOTT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

SCOTT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 3,508,083
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Amounts reported for governmental activities in the
Statement of Activities are different because:

Governmental Funds report capital outlays as expenditures. However, in the
Statement of Activities the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense.

Capital Outlay	1,190,951
Depreciation Expense	(2,611,635)

The issuance of long-term debt provides current financial resources
to governmental funds while the repayment of principal on
long-term debt consumes the current financial resources of
governmental funds. These transactions, however, have no
effect on net assets.

Revenue Bonds Principal Payments	330,000
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Change in Net Assets of Governmental Activities	\$ 2,417,399
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SCOTT COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

SCOTT COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 6,868
Total Assets	6,868
Net Assets	
Unrestricted	6,868
Total Net Assets	\$ 6,868

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

SCOTT COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 11,610
Miscellaneous	12,277
Total Operating Revenues	<u>23,887</u>
Operating Expenses	
Educational and Recreational	2,884
Personnel Costs	3,491
Miscellaneous	16,059
Total Operating Expenses	<u>22,434</u>
Operating Income	<u>1,453</u>
Nonoperating Revenues (Expenses)	
Inmate Pay From State	<u>555</u>
Total Nonoperating Revenues (Expenses)	<u>555</u>
Change In Net Assets	2,008
Total Net Assets - Beginning	<u>4,860</u>
Total Net Assets - Ending	<u><u>\$ 6,868</u></u>

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

SCOTT COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 11,610
Miscellaneous Revenue	12,277
Educational and Recreational	(2,884)
Personnel Costs	(3,491)
Miscellaneous Expense	(16,059)
Net Cash Provided By Operating Activities	<u>1,453</u>
Cash Flows From Noncapital Financing Activities	
Inmate Pay From State	<u>555</u>
Net Cash Provided By Noncapital Financing Activities	<u>555</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,008
Cash and Cash Equivalents - July 1, 2003	<u>4,860</u>
Cash and Cash Equivalents - June 30, 2004	<u><u>\$ 6,868</u></u>

The accompanying notes are an integral part of the financial statements.

SCOTT COUNTY
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2004 (Continued)

	Enterprise Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Jail Canteen Fund
Operating Income	\$ 1,453
Net Cash Provided By Operating Activities	<u>\$ 1,453</u>

The accompanying notes are an integral part of the financial statements.

SCOTT COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

SCOTT COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	<u>Agency Fund</u>
	Jail Canteen Inmate Account
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 7,668
Total Assets	<u>7,668</u>
Liabilities	
Amounts Held In Custody For Others	<u>7,668</u>
Total Liabilities	<u><u>\$ 7,668</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	51
NOTE 2.	DEPOSITS	57
NOTE 3.	CAPITAL ASSETS	57
NOTE 4.	LONG-TERM DEBT – PUBLIC PROPERTIES CORPORATION	58
NOTE 5.	OPERATING-LEASE AGREEMENT	58
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM	59
NOTE 7.	INSURANCE	59
NOTE 8.	ESTIMATED INFRASTRUCTURE HISTORICAL COST	59

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Scott County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Scott County Public Properties Corporation

The Scott County Public Properties Corporation is established for the purpose of providing long-term financing for approved projects. The Scott County Fiscal Court is financially accountable for the component unit as part of the reporting entity and its financial activity is blended with that of the fiscal court.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Scott County Elected Officials Not Part Of Scott County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Scott County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Public Properties Corporation Fund – This fund is for the accumulation of resources for, and the payment of general long-term debt principal and interest.

The primary government also has the following non-major governmental funds: Local Government Economic Assistance Fund, McCracken Trust Fund, and the John Graves Ford Memorial Hospital Fund. The Local Government Economic Assistance Fund and the John Graves Ford Memorial Hospital Fund are Special Revenue Funds and the McCracken Trust Fund is a Permanent Fund. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements on Interpretations issued after November 30, 1989, unless the Government Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Canteen Inmate Account for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	20-25
Buildings and Building Improvements	\$ 5,000	10-60
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-12
Infrastructure	\$ 5,000	20-40

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

The McCracken Trust Fund was established by the will of John C. McCracken in 1835. The will imposed that the fund be held in perpetuity and that one-third of the proceeds and profits be used to increase and augment the principal. The remaining two-thirds of the proceeds and profits were to be used at the Fiscal Court’s discretion to alleviate the misfortunes and bettering the conditions of poor and indigent persons.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Public Properties Corporation Fund, the Jail Canteen Fund, and the Jail Canteen Inmate Agency Fund.

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

The State Local Finance Officer does not require the Jail Canteen Fund and the Jail Canteen Inmate Agency Fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the following are considered related organizations of Scott County Fiscal Court: Georgetown-Scott County Tourism and the Scott County Public Library.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Scott County Fiscal Court: Park and Recreation and Planning and Zoning.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the primary government's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the primary government or component units as beneficiary/obligee on the bond.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Ending Balance
Primary Government:			
Governmental Activities:			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 4,319,833	\$	\$ 4,319,833
Total Capital Assets Not Being Depreciated	4,319,833		4,319,833
Capital Assets, Being Depreciated:			
Buildings	19,565,616		19,565,616
Other Equipment	1,890,165	404,529	2,294,694
Vehicles and Equipment	3,007,593	134,906	3,142,499
Infrastructure	19,402,876	651,516	20,054,392
Total Capital Assets Being Depreciated	43,866,250	1,190,951	45,057,201
Less Accumulated Depreciation For:			
Buildings	(5,479,621)	(427,308)	(5,906,929)
Other Equipment	(697,762)	(147,138)	(844,900)
Vehicles and Equipment	(1,262,771)	(287,285)	(1,550,056)
Infrastructure	(5,429,299)	(1,749,904)	(7,179,203)
Total Accumulated Depreciation	(12,869,453)	(2,611,635)	(15,481,088)
Total Capital Assets, Being Depreciated, Net	30,996,797	(1,420,684)	29,576,113
Governmental Activities Capital Assets, Net	\$ 35,316,630	\$ (1,420,684)	\$ 33,895,946

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 171,441
Protection to Persons and Property	461,252
General Health and Sanitation	14,540
Recreation and Culture	87,028
Roads, Including Depreciation of General Infrastructure Assets	<u>1,877,374</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 2,611,635</u></u>

Note 4. Long-term Debt – Public Properties Corporation

In September 1997, the Scott County Public Properties Corporation Fund issued \$3,415,000 of revenue refunding bonds, series 1997. The bonds were issued for advance refunding of the outstanding 1990 bonds maturing on and after January 1, 2002 to 2010. Interest is payable semi-annually on January 1 and July 1 of each year, and principal payments are due on January 1 of each year in the amounts stated below. The total principal outstanding was \$2,330,000 as of June 30, 2004.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 345,000	\$ 109,555
2006	360,000	93,513
2007	380,000	76,593
2008	395,000	58,733
2009	415,000	40,168
2010	<u>435,000</u>	<u>20,663</u>
Totals	<u><u>\$ 2,330,000</u></u>	<u><u>\$ 399,225</u></u>

The only change in long-term liabilities is the payment of principal on this debt issue for a reduction in debt from \$2,660,000 to \$2,330,000.

Note 5. Operating-Lease Agreement

The county has entered into the following lease agreement:

Description	Monthly Payment	Term of Agreement	Ending Date	Balance June 30, 2004
Copier	\$ 283	42 Months	August 2005	\$ 4,521

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2004, Scott County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Estimated Infrastructure Historical Cost

Infrastructure historical cost is an estimate. The primary government estimated the year infrastructure was built by determining when a major construction or reconstruction had been done on infrastructure. Then current year construction cost was deflated back to this estimated year of construction or reconstruction to arrive at estimated historical cost.

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SCOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

SCOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 11,833,000	\$ 11,833,000	\$ 15,774,826	\$ 3,941,826
Excess Fees	610,000	610,000	884,741	274,741
Licenses and Permits	197,000	197,000	233,919	36,919
Intergovernmental Revenue	993,452	993,452	2,823,345	1,829,893
Charges for Services	349,000	349,000	405,050	56,050
Miscellaneous	924,600	924,600	1,649,288	724,688
Interest	279,000	279,000	457,946	178,946
Total Revenues	15,186,052	15,186,052	22,229,115	7,043,063
EXPENDITURES				
General Government	4,729,750	5,112,013	4,538,616	573,397
Protection to Persons and Property	3,682,958	4,229,145	3,989,710	239,435
General Health and Sanitation	541,500	590,243	525,399	64,844
Social Services	392,325	444,325	381,975	62,350
Recreation and Culture	1,236,104	1,586,105	1,405,266	180,839
Debt Service	393,000	393,086	719	392,367
Capital Projects	10,550,000	9,655,000	2,210,982	7,444,018
Administration	4,434,503	3,950,223	2,717,596	1,232,627
Total Expenditures	25,960,140	25,960,140	15,770,263	10,189,877
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(10,774,088)	(10,774,088)	6,458,852	17,232,940
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(4,725,912)	(4,725,912)	(2,862,368)	1,863,544
Total Other Financing Sources (Uses)	(4,725,912)	(4,725,912)	(2,862,368)	1,863,544
Net Changes in Fund Balance	(15,500,000)	(15,500,000)	3,596,484	19,096,484
Fund Balance - Beginning	15,500,000	15,500,000	16,700,842	1,200,842
Fund Balance - Ending	\$	\$	\$ 20,297,326	\$ 20,297,326

SCOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 682,700	\$ 682,700	\$ 923,771	\$ 241,071
Miscellaneous	12,100	12,100	92,450	80,350
Interest	2,000	2,000	1,667	(333)
Total Revenues	696,800	696,800	1,017,888	321,088
EXPENDITURES				
Roads	2,597,627	2,598,628	1,836,862	761,766
Capital Projects	200,000	200,000		200,000
Administration	642,000	640,999	399,674	241,325
Total Expenditures	3,439,627	3,439,627	2,236,536	1,203,091
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(2,742,827)	(2,742,827)	(1,218,648)	1,524,179
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	2,742,827	2,742,827	1,100,000	(1,642,827)
Total Other Financing Sources (Uses)	2,742,827	2,742,827	1,100,000	(1,642,827)
Net Changes in Fund Balance			(118,648)	(118,648)
Fund Balance - Beginning			224,134	224,134
Fund Balance - Ending			\$ 105,486	\$ 105,486

SCOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 212,000	\$ 212,000	\$ 336,149	\$ 124,149
Charges for Services	25,000	25,000	44,079	19,079
Miscellaneous	24,100	24,100	42,342	18,242
Total Revenues	261,100	261,100	422,570	161,470
EXPENDITURES				
Protection to Persons and Property	1,546,185	1,687,320	1,378,940	308,380
Debt Service	63,000	63,000	36	62,964
Administration	635,000	493,865	424,949	68,916
Total Expenditures	2,244,185	2,244,185	1,803,925	440,260
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,983,085)	(1,983,085)	(1,381,355)	601,730
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	1,983,085	1,983,085	1,370,000	(613,085)
Transfers To Other Funds			(62,162)	(62,162)
Total Other Financing Sources (Uses)	1,983,085	1,983,085	1,307,838	(675,247)
Net Changes in Fund Balance			(73,517)	(73,517)
Fund Balance - Beginning			115,751	115,751
Fund Balance - Ending	\$	\$	\$ 42,234	\$ 42,234

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SCOTT COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**SCOTT COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

SCOTT COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	LGEA Fund	McCracken Trust Fund	John Graves Ford Memorial Hospital Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 212,496	\$ 84,587	\$ 420,417	\$ 717,500
Total Assets	<u>\$ 212,496</u>	<u>\$ 84,587</u>	<u>\$ 420,417</u>	<u>\$ 717,500</u>
FUND BALANCES				
Reserved For:				
Permanent Fund-Indigent Care	\$	\$ 82,875	\$	\$ 82,875
Unreserved:				
Permanent Fund		1,712		1,712
Special Revenue Fund	212,496		420,417	632,913
Total Fund Balances	<u>\$ 212,496</u>	<u>\$ 84,587</u>	<u>\$ 420,417</u>	<u>\$ 717,500</u>

SCOTT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

SCOTT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	LGEA Fund	McCracken Trust Fund	John Graves Ford Memorial Hospital Fund	Total Non-Major Governmental Funds
REVENUES				
Intergovernmental	\$ 102,243	\$	\$	\$ 102,243
Interest	2,328	2,568	12,282	17,178
Total Revenues	<u>104,571</u>	<u>2,568</u>	<u>12,282</u>	<u>119,421</u>
EXPENDITURES				
Social Services		2,188	13,409	15,597
Total Expenditures		<u>2,188</u>	<u>13,409</u>	<u>15,597</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>104,571</u>	<u>380</u>	<u>(1,127)</u>	<u>103,824</u>
Net Change in Fund Balances	104,571	380	(1,127)	103,824
Fund Balances - Beginning	107,925	84,207	421,544	613,676
Fund Balances - Ending	<u>\$ 212,496</u>	<u>\$ 84,587</u>	<u>\$ 420,417</u>	<u>\$ 717,500</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George Lusby, Scott County Judge/Executive
Members of the Scott County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance and Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scott County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated April 14, 2005. Scott County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Scott County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Scott County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting and On
Compliance and Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 14, 2005

**CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

SCOTT COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

CERTIFICATON OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
SCOTT COUNTY FISCAL COURT

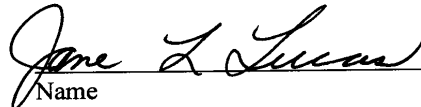
Fiscal Year Ended June 30, 2004

The Scott County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes.



Name

Judge Executive



Name

County Treasurer

